

THE CHILDREN'S SERVICE SOCIETY OF UTAH

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

AND

INDEPENDENT AUDITOR'S REPORT

THE CHILDREN'S SERVICE SOCIETY OF UTAH

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
The Children's Service Society of Utah

I have audited the accompanying statements of financial position of The Children's Service Society of Utah (a nonprofit organization) as of June 30, 2005 and 2004, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The Children's Service Society of Utah's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Service Society of Utah as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 10, 2006, on my consideration of The Children's Service Society of Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of The Children's Service Society of Utah taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

David T. Thomson, P.C.

Salt Lake City, Utah
February 10, 2006

THE CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENTS OF FINANCIAL POSITION

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash and cash equivalents	\$ 260,641	\$ 296,877
Investments	554,367	503,107
Accounts receivable, net of an allowance of \$10,138 and \$14,097 at June 30, 2005 and 2004	140,145	270,711
Grant and other receivable	7,047	9,592
Prepaid expenses	35,533	32,872
Inventory - program supplies	19,315	20,506
Lending library	28,398	21,652
Equipment, furniture and leasehold improvements, net of accumulated depreciation of \$210,279 and \$177,662 at June 30, 2005 and 2004	<u>125,732</u>	<u>107,926</u>
TOTAL ASSETS	<u>\$ 1,171,178</u>	<u>\$ 1,263,243</u>
LIABILITIES:		
Accounts payable	\$ 25,987	\$ 26,184
Accounts payable - related party	160	701
Credit card payable	19,745	9,480
Capital lease obligation	33,896	40,219
Vacation and sick leave payable	51,182	42,572
Employee bonus payable	-	24,056
Accrued payroll liabilities	<u>37,406</u>	<u>21,154</u>
Total Liabilities	<u>168,376</u>	<u>164,366</u>
NET ASSETS:		
Unrestricted:		
Designated - occupancy	400,000	400,000
Undesignated	404,147	468,057
Temporarily restricted	15,000	47,165
Permanently restricted	<u>183,655</u>	<u>183,655</u>
Total Net Assets	<u>1,002,802</u>	<u>1,098,877</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,171,178</u>	<u>\$ 1,263,243</u>

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2005 and 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
REVENUES						
Revenue and support						
Federal awards	\$ 928,369	\$ -	\$ -	\$ 928,369	\$ -	\$ -
State awards	19,999	-	-	19,999	-	-
Contributions	9,769	68,638	-	78,407	47,165	-
Program service fees	529,413	-	-	529,413	-	-
Contracts	16,574	-	-	16,574	-	-
Allocation from United Way	-	76,521	-	76,521	71,707	-
Fundraising	10,653	-	-	15,847	-	-
Contributed materials and facilities	48,693	-	-	64,582	-	-
Contributed assets	-	-	-	1,085	-	-
Other income	-	-	-	177	-	-
Investment income or (loss), net of fees of \$1,331 and \$1,196 in 2005 and 2004, respectively	-	-	-	-	-	-
Total revenue and support	51,379	-	-	51,379	-	-
	<u>1,614,849</u>	<u>145,159</u>	<u>-</u>	<u>1,511,962</u>	<u>118,872</u>	<u>-</u>
Net assets released from restrictions						
Expiration of time restrictions	177,324	(177,324)	-	79,707	(79,707)	-
Total net assets released from restrictions	177,324	(177,324)	-	79,707	(79,707)	-
Total revenues	1,792,173	(32,165)	-	1,591,669	39,165	-
				<u>1,630,834</u>		
EXPENSES						
Program services						
Birthparent and Adoption Services	441,070	-	-	340,688	-	-
Child care resource and referral	918,092	-	-	864,724	-	-
Kinship / Parenting	286,298	-	-	73,032	-	-
Supporting services						
Fund Raising	1,681	-	-	13,339	-	-
Administrative and general	199,121	-	-	127,622	-	-
Total expenses	1,846,262	-	-	1,419,405	-	-
	<u>9,821</u>	<u>-</u>	<u>-</u>	<u>3,296</u>	<u>-</u>	<u>-</u>
Loss on asset disposal						
CHANGE IN NET ASSETS	(83,910)	(32,165)	-	168,968	39,165	-
NET ASSETS AT BEGINNING OF YEAR	868,057	47,165	183,655	699,089	8,000	183,655
NET ASSETS AT END OF YEAR	\$ 804,147	\$ 15,000	\$ 183,655	\$ 868,057	\$ 47,165	\$ 183,655

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2005

	Program Services			Supporting Services		Total Expenses 2005
	Birthparent and Adoption Services	Child Care Resource and Referral	Kinship / Parenting	Fund Raising	Administration and General	
Salaries	\$ 167,161	\$ 480,565	\$ 164,730	\$ -	\$ 57,173	\$ 869,629
Employment benefits	14,665	71,591	15,258	-	1,685	103,199
Payroll taxes	13,934	41,306	14,912	-	5,987	76,139
Professional fees	1,669	-	2,708	-	6,221	10,598
Insurance	-	-	-	-	20,457	20,457
Occupancy expense	14,772	30,060	13,501	-	25,513	83,846
Equipment maintenance	2,329	3,933	4,760	-	8,823	19,845
Telephone	5,247	11,535	1,433	-	6,909	25,124
Dues and subscriptions	650	1,592	491	-	2,947	5,680
Office supplies and postage	7,376	38,531	8,529	-	3,865	58,301
Printing	1,713	15,852	2,884	-	2,291	22,740
Advertising	104,439	364	7,652	-	25,406	137,861
Program costs	92,624	181,724	35,215	-	8,419	317,982
Auto expense	3,331	3,731	506	-	23	7,591
Staff development	2,517	14,162	4,201	-	3,058	23,938
Sub contract	-	-	-	-	-	-
Staff support	2,903	2,261	1,455	-	4,648	11,267
Bad debt	-	662	2,812	-	11,049	14,523
Interest	-	-	-	-	3,243	3,243
Direct fundraising costs	-	-	-	1,681	-	1,681
Depreciation	5,740	20,223	5,251	-	1,404	32,618
Total expenses	\$ 441,070	\$ 918,092	\$ 286,298	\$ 1,681	\$ 199,121	\$ 1,846,262

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2004

	Program Services			Supporting Services		Total Expenses 2004
	Birthparent and Adoption Services	Child Care Resource and Referral	Kinship / Parenting	Fund Raising	Administration and General	
Salaries	\$ 161,066	\$ 474,985	\$ 39,158	\$ -	\$ 43,461	\$ 718,670
Employment benefits	10,416	50,505	3,101	-	5,598	69,620
Payroll taxes	13,287	38,095	3,187	-	2,549	57,118
Professional fees	2,041	1,562	577	-	9,099	13,279
Insurance	2,932	12,469	733	-	846	16,980
Occupancy expense	12,327	-	2,285	-	43,924	58,536
Equipment maintenance	1,720	12,119	422	-	752	15,013
Telephone	3,693	18,317	931	-	507	23,448
Dues and subscriptions	1,335	2,662	266	-	756	5,019
Office supplies and postage	6,745	28,219	1,898	-	3,419	40,281
Printing	2,290	18,048	1,047	-	444	21,829
Advertising	62,689	24,664	90	-	97	87,540
Program costs	29,275	123,457	14,038	-	10,342	177,112
Auto expense	2,819	6,188	206	-	188	9,401
Staff development	6,630	14,451	3,404	-	885	25,370
Sub contract	-	14,267	-	-	-	14,267
Staff support	1,461	7,902	380	-	1,156	10,899
Bad debt	14,097	-	-	-	-	14,097
Interest	-	-	-	-	1,107	1,107
Direct fundraising costs	-	-	-	13,339	-	13,339
Depreciation	5,865	16,814	1,309	-	2,492	26,480
Total expenses	\$ 340,688	\$ 864,724	\$ 73,032	\$ 13,339	\$ 127,622	\$ 1,419,405

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (96,075)	\$ 208,133
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	32,618	26,480
Bad debt expense (recovery)	(3,959)	13,543
Loss on asset disposal	9,821	3,296
Contributed assets	-	(1,085)
(Increase) decrease in operating assets:		
Accounts, grant and other receivables	137,070	(82,176)
Prepaid expense	(2,661)	(16,841)
Inventory / lending library	(5,555)	(19,870)
Increase (decrease) in operating liabilities:		
Accounts payable	(739)	5,022
Credit card payable	10,265	294
Vacation and sick leave payable	8,610	5,091
Employee bonus payable	(24,056)	24,056
Accrued payroll liabilities	<u>16,252</u>	<u>9,132</u>
Net cash provided by operating activities	<u>81,591</u>	<u>175,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and office equipment	(60,244)	(53,842)
Decrease (increase) in net investments	<u>(51,260)</u>	<u>(69,258)</u>
Net cash (used) by investing activities	<u>(111,504)</u>	<u>(123,100)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease obligation	-	40,219
Payment on lease obligations	<u>(6,323)</u>	<u>(14,587)</u>
Net cash provided (used) by financing activities	<u>(6,323)</u>	<u>25,632</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,236)	77,607
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>296,877</u>	<u>219,270</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 260,641</u>	<u>\$ 296,877</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ <u>3,243</u>	\$ <u>1,107</u>
Taxes paid	\$ <u>-</u>	\$ <u>-</u>

The Society had no non-cash investing and financing activities for the years ended June 30, 2005 and 2004.

The accompanying notes are an integral part of these financial statements.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities - The Children's Service Society of Utah (the Society) was organized October 28, 1884. The mission of the Society is to provide services which meet the developmental needs of children, foster quality childcare, and promote positive relationships in biological and adoptive families. Open Heart Adoption services are provided for infant and special needs children. Pregnancy counseling is provided for prospective parents. Therapeutic counseling is provided in the Heartworks Counseling Center for families in kinship parenting situations and others who struggle with loss and grief issues. The Grandfamilies program provides support, information, and advocacy for kinship caregivers and the affected children. The Child Resource and Referral (CCR &R - Metro) program is a resource for parents in need of childcare services, and educates the parents on how to evaluate a quality childcare setting. Recruitment and technical assistance training for childcare providers is available through this program. These services are provided primarily to residents along the Wasatch Front of Northern Utah with the exception of pregnancy counseling and adoption that are now nationwide. The Society is supported primarily through government awards, grants, contributions, program fees and the United Way. Government awards, contributions and program fees provided 93% and 85% of the Society's support for the years ended June 30, 2005 and 2004.
2. Income Taxes - The Society is an organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and is classified as a public charity.
3. Financial Statement Presentation - The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.
4. Contributions - Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
5. Contributed Services - Many individuals volunteer their time and perform a variety of tasks that assist the Society. The Society receives a substantial number of volunteer hours per year; the value of contributed services from volunteers is not recorded in the financial statements.
6. Accounts Receivable - Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable receivable. The Society had \$10,138 and \$14,097 in allowance for doubtful accounts at June 30, 2005 and 2004 respectively.
7. Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value at the date of donation (\$-0- and \$1,085 in 2005 and 2004). Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time. Purchased property and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives from 4 to 15 years.

8. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

9. Cash equivalents - For purposes of the statement of cash flows, the Society considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

10. Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

11. Fair Values of Financial Instruments - The following methods and assumptions were used by the Society in estimating its fair value disclosures for financial instruments: (a) Cash, cash equivalents, short-term investments, and promises to give due in less than one year - The cost of such investments approximate fair values because of the short maturities of those instruments. (b) Long-term investments - The fair values of long-term investments are based on quoted market prices for those or similar investments.

12. Allocation of costs - Direct expenses are charged to their respective programs or services. Indirect expenses are allocated to each program based on their use or proportion of related direct expenses.

13. Advertising - Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising, when they occur, are capitalized and amortized over the period during which future benefits are expected to be received. The amounts paid for advertising for the years ended June 30, 2005 and 2004 was \$137,861 and \$87,540 respectively.

14. Inventory - Inventory is stated at the lower of cost or market using the first-in, first-out method of accounting. The inventory consists of program supplies.

NOTE B - RESTRICTIONS ON NET ASSETS

Permanently restricted net assets consist of endowment, generally restricted and occupancy investments to be held indefinitely. The income from the funds is to be used for specific purposes. (See Note F.)

THE CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Society's financial instruments, none of which are held for trading purposes, are as follows at June 30, 2005 and 2004:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity Funds	\$154,691	\$161,728	\$152,507	\$174,015
Mutual Funds	256,971	353,825	251,791	308,709
Corporate Obligations	20,820	38,814	18,598	20,383

The fair values of the above are included in the statement of financial position under the cash and cash equivalents and investment captions. See Note F for the amount of the above, which is permanently restricted.

NOTE D - PENSION PLAN

On June 30, 2004, the Society terminated its Simplified Employee Pension Plan (SEP). Effective July 1, 2004, the Society has participated in a 403(b) Thrift Plan (Plan). All employees who work more than 20 hours per week are eligible to participate in the Plan. The Plan has no minimum age or service requirements. The employees can contribute any percentage of their salary up to \$14,000 in 2005. Employer matching contributions are not provided under the Plan. All employees are eligible to receive employer base contributions except for certain exclusions as outlined under the Plan. The base is 2% to 6% of employee compensation, subject to years of service, up to \$41,000. A participant's account balance is vested at 40% after 1 year; 60% after 2 years; 80% after 3 years and 100% after 4 years or more. Total pension expense for the year ended June 30, 2005 and 2004 was \$25,180 and \$16,677 respectively.

NOTE E - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment as of June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Leasehold improvements	\$ 38,218	\$ 21,882
Equipment and furniture	257,574	223,487
Copier held under capital lease	<u>40,219</u>	<u>40,219</u>
	336,011	285,588
Accumulated depreciation	<u>(210,279)</u>	<u>(177,662)</u>
	<u>\$ 125,732</u>	<u>\$ 107,926</u>

NOTE F - ENDOWMENT FUNDS AND OTHER PERMANENTLY RESTRICTED NET ASSETS

The Society has received funds from donors that have required the principal to be maintained in perpetuity. The Kappa Kappa Gamma fund is restricted for the care of crippled children. The Educational Fund has been designated to fund education for agency clients.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

NOTE F - ENDOWMENT FUNDS AND OTHER PERMANENTLY RESTRICTED NET ASSETS - CONTINUED

The Oscar Friendly fund was created with the principal and interest restricted to "special purposes" to be determined by the Board. Investment income for all endowment funds are available for operating expenses since the Oscar Friendly Fund income has been designated by the board for unrestricted purposes. The principal balances at June 30, 2005 and 2004 are as follows:

Endowment Funds:

Kappa Kappa Gamma Fund	\$ 2,123
Educational Fund	5,100
Oscar Friendly Fund	65,228
Other	3,500
Generally Restricted Assets	<u>107,704</u>
Total	<u>\$ 183,655</u>

NOTE G - CONCENTRATIONS OF CREDIT RISK

Almost all of the Society's service activity is with individuals located within the State of Utah. The Society has granted credit to individuals obtaining services under its adoptions and clinical service programs. As of June 30, 2005 and 2004, receivables from individuals for such services were \$31,413 and \$32,632 respectively.

The Society maintains cash at financial institutions in checking accounts and with institutions that invest excess funds for the Society. Total cash and cash equivalents held by the above at June 30, 2005 and 2004 was \$260,641 and \$296,877. Cash held at the banking institutions are secured by the Federal Deposit Insurance Corporation up to \$100,000. Uninsured balances of \$18,497 and \$61,747 existed at June 30, 2005 and 2004 respectively.

NOTE H - COMMITMENTS

The Society has signed an amendment to its original lease for seven years for office space starting in April of 1995. The term of the lease was extended for an additional 5 years commencing on the 1st day of June 2002. Two months of original lease payments were prepaid. The Society moved to the space in June of 1995. Subsequent to June 30, 2004, the Society added additional lease space on the same floor as its current lease. This was done through a second amendment to the original lease. The additional space is being leased through May 31, 2007.

A third amendment to the lease agreement was entered into in August of 2004. The Society added space known as Suite 450 at the same terms and conditions as their existing lease. The lease will continue until December 31, 2011, however either party may terminate the lease agreement by notifying the other party by June 30, 2008. The lease will then terminate on December 31, 2008. The Society, by notifying the landlord by June 30, 2008, may continue to lease all or part on a month-to-month basis. The monthly lease payment increases January of each year. The 2005 payment is \$8,478. Minimum future rental payments under the newly amended lease are \$103,396, \$106,493, \$109,676 and \$55,655 for the twelve months ending June 30, 2006, 2007, 2008 and six months ending December 31, 2008 respectively.

THE CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

NOTE I - LENDING LIBRARY

The Society has developed a lending library as part of its program services. The cost to set-up the library has been capitalized. Costs to maintain the library will be expensed at the time of payment and additions will be added to the library at cost at the time of payment.

NOTE J - COPIER LEASE

The Company is the lessee of a copier under a capital lease expiring in October of 2010. The asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is being amortized over its estimated productive life. Amortization of the asset under the capital lease is included in depreciation expense for the year ended June 30, 2005.

The interest rate on the capitalized lease is 8.68% and is imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return. At the end of the lease the Society can purchase the equipment for fair market value, renew the lease, return the equipment or have an opportunity to upgrade the equipment.

Minimum future lease payments under the capital lease as of June 30, 2005, were as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2006	\$ 9,565
2007	9,565
2008	9,565
2009	9,565
2010	<u>2,394</u>
Net minimum lease payments	40,654
Amount representing interest	<u>(6,758)</u>
Present value of net minimum lease payments	<u>\$ 33,896</u>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2005 are available and consist of the following:

Infant and Special needs	\$ 4,000
Kinship	<u>11,000</u>
Total	<u>\$ 15,000</u>

THE CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

NOTE F - TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Temporarily restricted net assets at June 30, 2004 consist of the following:

Infant and Special needs	\$ 12,000
Kinship	3,907
Birthparent	19,258
CCR & R	<u>12,000</u>
Total	<u>\$ 47,165</u>

SINGLE AUDIT SECTION

THE CHILDREN'S SERVICE SOCIETY OF UTAH
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2005

Department/Pass-Through Grantor/Program Title	Pass-Through Grantor		Federal CFDA Number	Federal Expenditures
	Number	Number		
<u>Major Program</u>				
U. S. Department of Health and Human Services				
Passed through State of Utah Department of Workforce Services, Utah Office of Child Care Services (CCR & R Program)				
Child Care and Development Block Grant	05-6071	93.575	\$ 884,151	\$ 884,151
			\$ 884,151	\$ 884,151
<u>Other Federal Awards</u>				
U. S. Department of Health and Human Services				
Passed through State of Utah Department of Human Services (Evaluate Families Trying to Adopt)				
Promoting Safe and Stable Families	04-0429	93.556	\$ 9,218	\$ 9,218
U.S. Department of Health and Human Services				
Passed through Salt Lake County (Grandfamilies)				
Block Grants for Prevention and Treatment of Substance Abuse	04-512C	93.959	35,000	35,000
			\$ 44,218	\$ 44,218
			\$ 928,369	\$ 928,369

See notes to Schedule of Expenditures of Federal Awards.

THE CHILDREN'S SERVICE SOCIETY OF UTAH
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2005

- Note 1. **General** - The schedule of expenditures of federal awards presents the activity of all federal award programs of The Children's Service Society of Utah. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule.
- Note 2. **Basis of Accounting** - The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.
- Note 3. **Relationship to Society's Financial Statements** - Federal awards revenue for the year ended June 30, 2005, are reported in the Society's statement of activity as follows:

Federal Awards	<u>\$ 928,369</u>
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors of
The Children's Service Society of Utah

I have audited the financial statements of the Children's Service Society of Utah (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued my report thereon dated February 10, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Children's Service Society of Utah's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of the Society in a separate letter dated February 10, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Children's Service Society of Utah's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 05-01, 05-02 and 05-03.

This report is intended solely for the information and use of the audit committee, management, Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

David T. Thomson, P.C.

Salt Lake City, Utah
February 10, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors of
The Children's Service Society of Utah

Compliance

I have audited the compliance of The Children's Service Society of Utah (a nonprofit organization) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Children's Service Society of Utah's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Children's Service Society of Utah's management. My responsibility is to express an opinion on The Children's Service Society of Utah's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Children's Service Society of Utah's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on The Children's Service Society of Utah's compliance with those requirements.

As described in items 05-01, 05-02 and 05-03 in the accompanying schedule of findings and questioned costs, The Children's Service Society of Utah did not comply with requirements regarding Allowable Costs / Cost Principles that are applicable to its Child Care and Development Block Grant. Compliance with such requirements is necessary, in my opinion, for The Children's Service Society of Utah to comply with requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, The Children's Service Society of Utah complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of The Children's Service Society of Utah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered The Children's Service Society of Utah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect The Children's Service Society of Utah's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider item 05-01 to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, Board of Directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

David T. Thomson, P.C.

Salt Lake City, Utah
February 10, 2006

THE CHILDREN'S SERVICE SOCIETY OF UTAH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2005

No matters were reported in the prior year.

THE CHILDREN'S SERVICE SOCIETY OF UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

I. Summary of auditor's results:

Financial Statements:

Type of auditor's report issued: unqualified

Internal control over financial reporting:

-Material weakness(es) identified? ☐ yes ☒ no

-Reportable condition(s) identified that are not considered to be material weaknesses:

☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☒ yes ☐ no

Federal Awards:

Internal Control over major programs:

-Material weakness(es) identified? ☒ yes ☐ no

-Reportable condition(s) identified that are not considered to be material weaknesses:

☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ yes ☐ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

II. Financial statement findings:

See Section III for compliance matters 05-01, 05-02, and 05-03.

**THE CHILDREN'S SERVICE SOCIETY OF UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

Section III - Federal Award Findings and Questioned Costs

CURRENT YEAR FINDINGS

**Questioned
Costs**

Finding 05-01: Allowable Costs/Cost Principles - Costs that were questioned pursuant to a contract monitoring audit performed by auditors of the Utah Department of Workforce Services and a single audit by the independent auditor.

All questioned costs were not reimbursed by the Department.

FEDERAL AGENCY: US DEPARTMENT OF HEALTH AND HUMAN SERVICES
Utah Office of Child Care - CCR&R Program; Passed through State of Utah
Department of Workforce Services - CFDA No. 93.575;
Grant No. 05-6071; Grant Year - Year ended June 30, 2005

Criteria: A-122 B.39.a Each charge is supported by appropriate documentation
A-122 B.39.c Each charge was in accordance with allowability of cost provisions of the applicable cost principles and any limitations in the program agreement, program regulations, or program statutes.

Condition: Documentation does not provide allocation calculations or adequate information to demonstrate that a portion or all of a cost is related to or was incurred for the contract program. Documentation not provided to support or demonstrate that costs claimed have been incurred or allocated properly. Costs charged to the contract program have not been provided in the contract budget and are excessive and/or unreasonable. Costs charged to the contract program have been incorrectly charged to the program. Reported costs are not in accordance with federal cost principles applicable to non-profit organizations. Program registration fees not yet applied to contract. Sales tax charged to the program.

Questioned Costs:

\$ 43,852

Context: In 2005, total federal expenditures for this program was \$884,151 and CCR&R expenses, materials, travel and mileage is \$261,564.

Effect: Unallowable costs, costs without proper documentation, double billings and cost billed in error may be submitted for reimbursement.

Cause: A-122 B.39 documentation support and allowability of cost provisions of the applicable cost principles and limitations in the program agreement, program regulations, or program statutes in certain instances were not followed or not adhered to by staff or management.

Recommendation: Written justification and/or allocation calculations shall be provided, as appropriate, for charging costs to the contract program. Documentation and justification of costs will be provided and costs will be reasonable and allowable. Costs shall be reallocated using an appropriate basis that distributes the cost according to the benefit received by the contract program. The method of proration will be provided to program monitors. Costs shall be charged to the contract program according to provisions in the contract budget. Costs shall be incurred with prudence

**THE CHILDREN'S SERVICE SOCIETY OF UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

**Questioned
Costs**

CURRENT YEAR FINDINGS

and with particular care to determine reasonableness. Controls and oversight will be strengthened to preclude incorrectly charging unallowable cost to the contract program and staff knowledge of cost principles will be improved. Program income will be accounted for on the billing statement on a regular basis and will be accurate. Sales tax shall not be charged to the contract program.

Views of responsible officials and planned corrective actions: We concur with the auditors recommendations. The above recommendations of the auditor will be implemented.

Finding 05-02: Allowable Costs/Cost Principles - Indirect costs methodology was questioned pursuant to a contract monitoring audit performed by auditors of the Utah Department of Workforce Services and a single audit by the independent auditor. All questioned costs were not reimbursed by the Department.

FEDERAL AGENCY: US DEPARTMENT OF HEALTH AND HUMAN SERVICES
Utah Office of Child Care - CCR&R Program; Passed through State of Utah
Department of Workforce Services - CFDA No. 93.575;
Grant No. 05-6071; Grant Year - Year ended June 30, 2005

Criteria: A-122 A. Part D.4 subpart c - indirect costs consist exclusively of general administration and general expenses. Part D.3.b(4) - those costs that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature which do not relate solely to any major function of the organization should be included in an indirect cost pool.

Condition: An appropriate allocation base was not used for particular costs directly charged to the contract program.

Questioned costs:

\$ 12,344

Context: In 2005, total federal expenditures for this program was \$884,151 and CCR&R expenses, materials, travel and mileage is \$261,564.

Effect: Indirect cost pool amounts may be incorrectly allocated to program costs as direct costs.

Cause: Allocation methodology employed by management was in certain circumstances incorrectly allocating general and administrative pool costs to program costs as direct costs.

Recommendation: Costs shall be reallocated using an appropriate basis that distributes the cost according to the benefit received by the contract program and use a base most appropriate to the cost being prorated. Policies and procedures to be established which clearly outline which costs will be included in direct costs.

**THE CHILDREN'S SERVICE SOCIETY OF UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005**

**Questioned
Costs**

CURRENT YEAR FINDINGS

Views of responsible officials and planned corrective actions: We concur with the auditors recommendations. The above recommendations of the auditor will be implemented.

Finding 05-03: Allowable Costs/Cost Principles - Costing of capital costs to expenses questioned pursuant to a contract monitoring audit performed by auditors of the Utah Department of Workforce Services and a single audit by the independent auditor.
All questioned costs were not reimbursed by the Department.

FEDERAL AGENCY: US DEPARTMENT OF HEALTH AND HUMAN SERVICES
Utah Office of Child Care - CCR&R Program; Passed through State of Utah
Department of Workforce Services - CFDA No. 93.575;
Grant No. 05-6071; Grant Year - Year ended June 30, 2005

Criteria: A-122 B.15 and Attachment B.11. Either a depreciation charge or use allowance may be used for a class of fixed assets to charge federal programs for the use of buildings, capital improvements, or equipment, but both methods may not be used for a single class of assets. Capital expenditures for general purpose equipment are unallowable as direct charges.

Conditions: Costs charged to the contract program included expenditures for the acquisition of capital assets or expenditures to make improvements to capital assets.

Questioned costs:

\$ 39,036

Context: In 2005, total federal expenditures for this program was \$884,151 and CCR&R expenses, materials, travel and mileage is \$261,564.

Effect: Program costs are overstated by the amount of capital items included in such contract program costs. The depreciation charge or allowance is understated.

Cause: Managements erroneous belief that certain capital costs could be charged to the contract as program costs and the ignoring of depreciation charge or use allowance.

Recommendation: A depreciation charge or use allowance will be used for capital assets.

Views of responsible officials and planned corrective actions: We concur with the auditors recommendations. The above recommendations of the auditor will be implemented.

David T.
Thomson P.C.

Certified Public Accountant

LETTER TO MANAGEMENT

February 10, 2006

Board of Directors
The Children's Service Society of Utah

In planning and performing my audit of the financial statements of The Children's Service Society of Utah for the year ended June 30, 2005, I considered the Society's internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated February 10, 2006, on the financial statements of the Society. Reportable conditions and material internal control weaknesses, if any, are included in my reports dated February 10, 2006, in accordance with *Government Auditing Standards* and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

I will review the status of these comments during my next audit engagement. I have already discussed many of these comments and suggestions with various Society personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

David T. Thomson, P.C.

David T. Thomson, P. C.
Salt Lake City, Utah

MEMORANDUM TO MANAGEMENT

Segregation of Duties

The size of the Society's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. I acknowledge your efforts to segregate duties and recommend that you continue in your efforts to ensure that all accounting functions and duties, as much as possible, be segregated and cross checked between personnel performing the work and those personnel recording transactions in the accounting records.

Cash and Disbursements

- Documentation should be maintained with check disbursements evidencing that invoices and billings have been agreed to the number and amounts of items purchased at the time of receipt by an individual not associated with such purchased items.
- Outstanding checks over 90 days should be investigated and appropriately voided.
- The governing board should annually authorize all bank accounts and check signers.
- A listing of mail receipts should be subsequently compared to cash receipts records and validated copies of deposit slips of deposits by an employee having no access to cash. Checks should be restrictively endorsed "for deposit only" by the individual who opens the mail.
- Payroll checking accounts should be reconciled monthly and agreed to the general ledger. All reconciliations should be reviewed and approved by someone other than the person doing the reconciliation. They should spot check source documentation to the bank reconciliation.
- Employees with cash disbursement duties should be required to take vacations and other employees should be required to perform that employee's accounting functions while they are gone on vacation.
- All petty cash "outs" should be supported by receipts.
- Gifts cards should be carefully accounted for and safeguarded to prevent missing cards.
- It would be best for the Society to not have more than \$100,000 in its sweep account at any given time.

Furniture, Fixtures and Equipment

- Follow-up should be done on a regular basis to insure that the new capitalization policy of the Society is being followed. All new equipment, furniture and fixture and especially small items that can be carried or move from place to place such as cell phones, lap tops and cameras should be immediately tagged or marked as Society property with an identification number at the time of purchase and recorded in a fixed asset inventory ledger or spreadsheet. Asset retirement policy needs to be strengthened and become fully implemented with documentation provided to show that the policy is being followed.
- Periodic reviews and appraisals need to be made relative to insurance coverage considerations for furniture, fixtures and equipment.

Accounts Receivable

- Your Medicaid billing methods should be extensively reviewed and formal policies and procedures implemented and documented in writing. If necessary a Medicaid billing professional or someone well versed in Medicaid rules should conduct the review and set up the policies and procedures. On a regular basis, actual billing practices should be compared with implemented policies to make sure they are being strictly followed. Analysis should be done to make sure that the amounts shown in the financial statements are amounts that are collectible.
- Summaries of billings should be reconciled to cash or accounts receivable charges.

- Receivables should be aged each month and the list should be reviewed by a responsible person. Delinquent accounts should be followed up for collection. An authorized person or the governing board should determine or approve the write-off of uncollectible accounts receivable.

Accounts Payable and Expenses

- As soon as possible, procedures should be put in place to ensure that all items purchase are compared to your purchase request with its supporting documentation as to amounts or number of items purchased to those received in at time of delivery or receipt. This should be done prior to the delivering of the items purchased to the person who ordered the items. This is especially needs to be done if you continue your method of purchasing items by credit card on an as needed basis with small number items and correspondingly small dollar amounts purchased.
- If possible the person doing the payable function should be independent of purchasing, receiving, disbursing, inventory, and general ledger functions. The same vacation policy described in the accounts receivable section above should be followed in the accounts payable function.

Accounting Manual

- I would like to congratulate the Society for completing its formal accounting manual documenting the procedures for fiscal operations. However, you should continue in your efforts in this area to make sure that the manual is always current and updated for changes and improvements in procedures.
- Please make sure that policies and procedures for procurement, related party transactions and assigning of contract rights are added to the manual and are being followed. I note that a Society travel policy has been added to the manual subsequent to June 30, 2005.

General

- Some sort of sales register and perpetual inventory system should be implemented in the area of the lending library and the supplies inventory so that cash receipts in this area can be checked to inventory movement and control can be maintained.
- On a spot check basis, the attendance registry for training should be reconciled to training income.
- Better support for salary and hourly wage increases should be maintained in employment records. All salary increases should be supported by approvals by all management personnel.
- The auditor noted that to obtain better cell phone rates that the Society is now using a lump sum minutes program that covers all Society cell phone use. In the past each individual had a certain number of minutes per month and if they went over those minutes they were to reimburse the Society for personal use of cell phone minutes. Under this new policy that control is now gone. The Society should implement some mechanism in is treatment of cell phone charges to insure that personal use of cell phone minutes can be determined. Employees who use cell phones for personal use should pay the Society for such use. The Society should look at other items purchased for employees that can be subject to personal use such as cameras or lap top computers, etc. and determine how personal use can be controlled.

Credit Cards

- Credit card charges should be recorded in the proper period and should be reconciled monthly. The reconciled amount should agree to the general ledger detail or control amount. I would recommend that only certain department management personnel plus other personnel on a limited basis be issued credit cards as best determined by management. Hopefully this would help to centralized purchasing and receiving and the receiving procedures mentioned above would then relate to only a few key individuals who could monitor and control this activity by program functions within the Society. Again, this would facilitate better control of charges and should help to reduce the paper work and accounting effort as it now stands with the credit cards.